



AGENDA ITEM 5

DATE OF MEETING: October 19, 2011

ACTION: _____

INFORMATION: X

**FISCAL YEAR-END SUMMARY
(FISCAL YEAR ENDING JUNE 30, 2010)**

SUMMARY

Staff will provide the Commission fiscal briefings in four areas: First 5 California's year-end revenue and expenditures for Fiscal Year (FY) 2010-11, revenue projections through FY 2014-15, the Fund Condition beginning FY 2011-12, and revenue trends.

BACKGROUND

Pursuant to Health and Safety Code (HSC) section 130105, the California Children and Families Trust Fund (hereinafter referred to as "the Fund"), was created in the State Treasury and consists of Proposition 10 revenues collected pursuant to the taxes imposed by Section 30131.2 of the Revenue and Taxation Code.

The Board of Equalization (BOE) administers the Fund and determines the amounts to be transferred to the following seven Proposition 10 Funds: Counties, Mass Media Communications, Education, Child Care, Research and Development, Administration, and Unallocated. HSC section 130105 establishes the percentage of funds to be disbursed to each account, which are all interest-bearing accounts.

The BOE determines the amount for adjustments to the Fund prior to the transfer of funds to the designated state commission and county commission funds. These adjustments include the annual backfill to the Prop 99 Fund and Breast Cancer Fund and the monthly BOE operational costs for tax collection and enforcement programs.

Attachment A, Funding Structure, provides an overview of how the funds are transferred to the individual Proposition 10 state and county commission funds. Per HSC sections 130100 to 130155, First 5 California disburses 80 percent of Proposition 10 tobacco tax revenue to county commissions monthly if requirements specified in statute have been met. Each month, the BOE provides First 5 California with the amount of tobacco tax revenue that is available for disbursement to the county commissions. These funds are transferred into the County Fund. County commissions receive the portion of the total moneys available to all county commissions equal to the percentage of the number of births recorded in the relevant county in proportion to the entire number of births recorded in California. Interest that accumulates in the County Account is also disbursed annually to the county commissions using this same formula.

First 5 California's Administrative Services Division (ASD) disburses funds from the six state funds consistent with the directives of the State Commission and the Executive Director or Chief Deputy Director, and the Bylaws for the California Children and Families Commission. ASD also maintains financial records of disbursements.

The annual Financial Statement Audits of the Children and Families Trust Fund and Related Accounts are available on <http://www.cffc.ca.gov/commission/fiscal.asp>. The audit report for FY 2010-11 will be available in December 2011.

FY 2010/11 YEAR END SUMMARY:

Revenue Collection, Fund Administration and Adjustments

The total Proposition 10 tobacco tax revenue collected by the BOE in FY 2009-10 (prior to BOE adjustments) was \$512.5 million. The total revenue received in FY 2010-11 was \$504.5, representing a 1.56% decrease in revenue from FY 2009-10.

As represented in Agenda Item 5, Attachment B, the BOE adjustments to the tax revenue include the following:

- The FY 2010-11 Backfill totaled \$20.2 million, a decrease of 7.34% from FY 2009-10.
- Adjustments for BOE operational costs for tax collection and enforcement activities totaled \$14.2 million, an increase of 21.37% from FY 2009-10.

The amount of monthly revenue received varies each month, each year. During the first and fourth quarters of each year, revenues received are consistently higher than during the second and third quarters. The BOE calculated backfill typically occurs during the second quarter. Agenda Item 5, Attachment C, First 5 California Trust Fund History, demonstrates the variance in monthly Proposition 10 tax revenues collected each year.

In FY 2010-11, the BOE transferred a total of \$470,254,327 to the seven state and county funds.

The State Commission's share of the FY 2010-11 tobacco tax revenue available to transfer (after backfill and Board of Equalization adjustments occur) totaled \$94.05 million, representing a 1.86% decrease from FY 2009-10 revenue (\$95.8 million). Eighty percent of the total amount available for transfer was directed to the county fund totaling \$376.2 million.

Surplus Money Investment Fund Earnings

First 5 California investments consist of cash in excess of current needs on deposit in the State Surplus Money Investment Fund (SMIF). The Fund and related accounts participate in the State of California's Pooled Money Investment Program, whereby cash

on deposit in the State Treasury determined to be in excess of immediate needs is transferred to the SMIF for investment purposes. All earnings derived from investment of the SMIF are apportioned to the contributing fund as provided in the Government Code.

The rate of interest earned on investment changes regularly and is posted to First 5 California's accounts quarterly. Currently, the interest rate is 0.480%, as reflected in the Yield Rate Charts developed by the State Controllers' Office located at:
<http://www.sco.ca.gov/Files-ARD/smifrate.pdf>.

Table 1 provides a summary of SMIF revenue by account beginning with FY 2007-08 through FY 2010-11.

TABLE 1
SMIF Revenue by Account

	FY 07-08	FY 08-09	FY 09-10	FY 10-11
Media	\$2,860,932	\$1,843,497	\$592,458	\$184,025
Education	\$6,119,513	\$2,748,882	\$653,916	\$353,841
Child Care	\$3,001,928	\$1,341,339	\$343,215	\$173,764
Research	\$3,518,258	\$1,669,417	\$455,931	\$227,359
Administration	\$1,082,924	\$549,629	\$157,822	\$115,721
Unallocated	\$168,851	\$359,669	\$176,966	\$149,310

In FY 2010-11 First 5 California received a total of \$1,204,020 in interest earnings for all state accounts, representing a decrease of 49% from FY 2009-10 interest earnings (\$2,380,308.32). First 5 California has seen a 93% decrease in interest earnings from 2007-08, when California started experiencing the latest economic downturn. With the decrease each year in our fund balance and the significant reduction in the interest yield rates, the interest earning on First 5 California accounts are minimal.

FY 2010-11 Fund Condition

The fund and related accounts are classified as "Other Government Cost Funds" for State of California financial reporting purposes. Other Governmental Cost Funds are special revenue funds used to account for revenues restricted by law for specified purposes. Table 2 on the following page provides a summary of First 5 California's Fund Condition as of June 30, 2011.

TABLE 2
FY 2010-11 Fund Condition Overview

2010-11 Fund Condition (Dollars in Millions)	
	Actual 2010-11
Prior Year Fund Balance	\$252
Revenues and Transfers	\$97
Total Resources Available	\$349
Expenditures ¹	\$222
Ending Fund Balance	\$127

¹Includes Accruals and Encumbrances

Table 3 shows First 5 California's fiscal year (FY) 2010-11 year end revenue and expenditure results and the FY 2010-11 year end balances by fund. Each of the following First 5 California funds ended FY 2010-11 in a positive position.

TABLE 3
Summary of FY 2010-11 Revenue/Expenditures by Account

Fund	FY 2010-11 Revenue	FY 2010-11 Expenditure	FY 2010-11 End Balance
Mass Media Communications	\$29,034,917.47	\$33,985,832.45	\$31,407,194.63
Education	\$24,710,080.74	\$70,379,378.70	\$25,052,047.54
Child Care	\$14,281,394.02	\$28,786,338.71	\$23,130,745.10
Research and Development	\$14,334,988.69	\$50,160,389.60	\$17,832,745.13
Administration	\$4,818,785.83	\$4,994,197.09	\$24,360,806.27
Unallocated ¹	\$9,554,396.06	\$33,344,204.78	\$5,426,452.66
Totals	\$96,734,562.81	\$221,650,341.33	\$127,209,991.33

All five local assistance funds show expenditures in FY 2010-11 that exceeded revenue received in those funds. The State Commission approved these expenditures through the assignment of funds from prior year fund balances (also referred to as carryover).

The FY 2010-11 year-end fund balance totals \$127.2 million, representing a 49.5% decrease from the FY 2009-10 year-end fund balance.

In FY 2010-11 all personnel and administrative overhead costs totaled \$3.66 million. General operating expenses and equipment for FY 2010-11 totaled \$1.33 million.

FY 2010-11 Fund Balance Reporting

In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. Statement 54 is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications. Statement 54 is effective for California governmental financial statements beginning with FY 2010-11. Fund balance amounts will be reported in the following classifications:

- Nonspendable – amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted – amounts constrained by external parties, constitutional provision, or enabling legislation.
- Committed – amounts constrained by a government using its highest level of decision-making authority, i.e., the State Commission. To be reported as committed, amounts cannot be used for any other purpose unless the Commission takes the same highest level action to remove or change the constraint.
- Assigned – amounts a government intends to use for a particular purpose, i.e., Executive Director who has been delegated authority. Never in excess of total fund balance.
- Unassigned – amounts that are not constrained.

As mentioned earlier, First 5 California's audit opinion for the fiscal year, that ended June 30, 2011, will be available in December 2010 and will be presented to the State Commission at its January 2012 commission meeting.

Revenue Trends

Attached to Agenda Item 5 are several updated fiscal tracking charts and tables that provide a multi-year picture of revenue projections, actual revenue received, and FY 2011-12 projected revenue by accounts. A description of each attachment follows:

- Attachment D provides an overview of actual and projected revenue by fiscal year for both county commissions and First 5 California.
- Attachment E provides a comparison of Proposition 10 revenue projections with actual revenue received for eight prior fiscal years.
- Attachment F provides a two-year-revenue comparison by month for FY 2009-10 and FY 2010-11 actual revenue received, for state and counties combined, July

through June. This chart demonstrates the variance in monthly revenue received from year to year.

- Attachment G shows the distribution of projected revenue for FY 2011-12, by account.

Financial Plan for FY 2010-11 through FY 2014-15

First 5 California's Financial Plan is based on actual cash balances for FY 2010-11 and projected cash balances, estimated revenues, and expenditures for current and three budget years, which run from July 1 through June 30.

The First 5 California Financial Plan, Attachment H, is organized by fiscal year and designed to show the beginning "cash" balances available on July 1 of each fiscal year, the obligated full-year expenditures by project, the amount of projected current year revenue needed to meet current year obligations for each First 5 California account, and the projected year-end balance. A negative number showing in the subtotal of any account does not represent an obligation or funding deficit, but the amount of funds needed from the current year revenue to meet current year obligations. As a conservative practice, First 5 California strives to retain approximately half of the projected revenue in each fiscal year for budget year carry over to ensure sufficient cash is available to meet obligations.

General Discussion

As revenue is received through the year, we typically don't realize the full fiscal year amount until August or September of the following fiscal year.

First 5 California operates on a cash basis. In order to encumber funds (set aside funds for current commitments and obligations of the state commission), there must either be a carry over cash balance sufficient to cover these costs or projected revenue that would ensure sufficient cash in the given fiscal year to cover fiscal year obligations.

For the first time, beginning with FY 2011-12, First 5 California will have to depend on current year revenue to meet current year obligations. It is fiscally prudent to retain approximately one half of the projected revenue in each fiscal year for the budget year carryover to ensure sufficient cash is available to meet obligations.

Terry Miller, Chief of the Administrative Services Division, will present additional detail related to Fiscal Year End figures and funding changes, and highlight spending commitments for Fiscal Year 2011-12 through Fiscal Year 2014-2015.

- Attachments:
- A. Funding Structure Diagram
 - B. BOE Adjustments (Enforcement, Administration, and Backfill)
 - C. BOE Historical Trust Fund History for First 5 California
 - D. Graphical Display of Six-Year Actual and Projected Revenue
 - E. Comparison of Prop. 10 Revenue Projections and Actuals
 - F. Two-Year Revenue Comparison by Month
 - G. Fiscal Year 2009/10 Projected Revenue by Account
 - H. Financial Plan